Headquarters U.S. Air Force

Integrity - Service - Excellence

Source Selection Training

Cost/Price Evaluation *Module 2 – Cost Reimbursable* Contracts

Date: Mar 2008

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Cost Overview

- Learning Objectives
- Role of Cost/Price Analyst or Team
- Products
- Cost Evaluation
- Documents
- Lessons Learned

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Learning Objectives

- Understand role as member of Cost/Price Team
- Identify products of Cost/Price Team
- Know expectations of your Cost/Price Team Lead

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Role of Cost Team

- Evaluate realism and reasonableness and develop the Most Probable Cost (MPC) for each offeror and assign Cost/Price Risk Factor rating, if applicable
- Assess financial executability (budget)
- Participate in briefings when appropriate
  - e.g., Oral presentations, and Initial, Competitive Range, Final, and Decision Briefings, etc.
- Provide cost inputs for the
  - Simplified Source Selection Report (SSSR) or
  - Proposal Analysis Report (PAR)
  - Price Competition Memorandum (PCM), and
  - Source Selection Decision Document (SSDD)
- Document Most Probable Cost and any Cost/Price Risk Factor rating for offerors in the competitive range

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Cost Team Products

- Proposal checklist (if necessary)
- Evaluation Notices (ENs)
- Cost charts for all briefings
- Most Probable Cost for each offeror
- Cost/Price Risk Factor Rating
- Cost portions of SSSR/PAR, PCM, SSDD
- Cost section for debriefings

Cost Evaluation

Purpose - Evaluate for reasonableness, realism

- **Reasonableness: For a price to be reasonable, it must represent a price to the government that a prudent person would pay when consideration is given to prices in the market**
- **Realism: Offeror's proposed cost are**
  - **Realistic for the work to be performed;**
  - **Reflective of a clear understanding of the requirements; and**
  - **Consistent with the unique methods of performance and materials described in the offeror's technical proposal**
  - **Products – Most Probable Cost (PC) for each offeror**
    - Cost/Price Risk Factor Rating (if applicable)

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Cost Evaluation

Why?

- **Reasonableness**
  - FAR requirement – usually established by adequate price competition
- **Cost Realism**
  - Required for cost reimbursable type contracts
  - May be used for fixed price incentive type contracts
  - Required to determine the cost of performance for each offeror
- **Most Probable Cost**
  - The SSA uses MPC in the source selection decision process
  - MPC may differ from proposed cost and should reflect the government's best estimate of contract cost
- **Cost/Price Risk Factor**
  - This evaluation factor shall be used for ACAT, SDD phase programs that use a cost reimbursement or fixed-price incentive type contract structure
  - Cost/Price Risk rating assesses the degree to which an offeror's cost proposal compares with the Government's best estimates of the offeror's Most Probable Costs (MPC)

Reasonableness – Price Analysis

Adequate Price Competition (APC) - FAR 15.403-1(c)

A price is based on APC if:

- **Two or more responsible offerors, competing independently, submit priced offers that satisfy the government's requirement and if**
  - **Best value source selection, price is a substantial factor**
  - **There is no finding the price of the otherwise successful offeror is unreasonable**
- **There was a reasonable expectation that two or more independent, responsible offerors would submit priced offers even though only one is received and**
  - **The CO can conclude the offer was submitted with the expectation of competition**
  - **Reasonable determination that proposed price is based on APC and approved at a level above the CO**
    - **Price analysis demonstrates reasonableness**

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Cost Evaluation

What info may be used to support the cost realism evaluation?

- **Audit Reports**
- **Technical Evaluations/IGE**
- **Forward Pricing Rate Agreements (FPRA) or Recommendations (FPRR)**
- **Recent Program History**
- **Wage Determinations**
- **Cost Models**
- **Published cost/price indices**
- **Compare to analogous efforts**
- **Market Information**

Cost Evaluation

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DCAA Available Services

- Determine adequacy of offerors' accounting systems
- Determine financial capability of offerors
- Audits for cost realism to ensure offeror proposals are
  - compliant with their standard estimating and disclosed practices
  - based on all accurate historical data that might be relevant
- Review specific areas of offeror proposals (e.g. direct and indirect rates, bills of materials)
- Applicable to prime, major subcontractors, team members

Contact your on site DCAA Financial Advisor or cognizant DCAA office for more information and assistance.

Cost Evaluation Steps

Steps for evaluation of each proposal

- **Read and Understand Sections L&M of RFP and Acquisition Strategy**
- **Read proposal!!!**
- **Check proposal against the RFP Section L or Proposal Checklist. Was everything provided?**
- **Develop ENs to obtain missing items and clarifications**
- **Assess proposal against Budget for affordability**

Cost Evaluation Steps

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Steps for evaluation of each proposal (cont'd)

Coordinate with Technical Team:

- **Understand requirements, make sure everything is proposed!**
- **Cross reference cost proposal against technical proposal**
  - **Is the offeror pricing what is technically proposed?**
- **Has Tech Team conducted tech evaluations, such as**
  - **Do proposed hours support content and schedule?**
  - **Are types/quantities of material, facilities appropriate?**
  - **Review parametric estimate inputs**
  - **Scrutinize areas of risk, quantify magnitude for offset**

Cost Evaluation

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Steps for evaluation of each proposal (cont'd)

Material and Subcontract Costs:

- Emphasis on high dollar items
- Understand the basis of estimate
- How firm are the proposed quotes/prices?
  - Rough Order of Magnitude (ROM) versus purchase order
- Were subcontracts awarded competitively?
- What type of adjustments were taken by the prime?
- Contract type is an indicator of cost risk
  - Firm Fixed Price through Cost Reimbursable
- DCAA can assist

Cost Evaluation Steps

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Steps for evaluation of each proposal (cont'd)

Teaming (if applicable):

- **Review teaming agreement**
  - **Understand who does what**
- **Evaluate each team member or subcontractor**
  - **Same criteria as prime**
  - **Same technique/level of detail as prime**
  - **Assist Audits (if obtaining prime audit)**

Cost Evaluation

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Steps for evaluation of each proposal (cont'd)

- Rate evaluation- check rates against FPRA, FPRR, look for errors (DCMA/DCAA can assist)
- Identify areas of cost risk and quantify
- Quantify Other Government Costs (OGCs)
- Calculate Most Probable Cost
  - Assign a Cost/Price Risk Rating if applicable

Cost Evaluation

Rules of Thumb

- ***Always*** **evaluate in accordance with Section M**
- **Do not use one offeror's data to adjust another offeror's proposal**
- **Use ENs as the tool to understand discrepancies or obtain clarifications**
- **Don't write in offeror's proposal, as offerors may request their proposals be returned after source selection**
- **Remember you are evaluating a proposal; take into account the offeror's unique approach, cost accounting system, etc.**
  - **You are not developing an estimate independent of the offeror's proposal**
- **Make sure the technical team's input is adequately documented**

Documentation

- **Why is proposal evaluation documentation so important?**
  - **Supports business decision**
  - **Improve chances of sustaining protest**
- **Keep everything until protest period is over!**
- **Shred extra copies of the proposals when you get the go-ahead**

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Documents

Three main documents required at the end of the Source Selection:

- **Simplified Source Selection Report (SSSR)/Proposal Analysis Report (PAR)**
- **Price Competition Memo (PCM)**
- **Source Selection Decision Document (SSDD)**

Proposal Analysis Report (PAR)

- Responsibility of the SSET chair
- Requirement to do PAR
  - All Source Selections >$100M
  - SSA determines if necessary for Source Selections between $10M-$100M
  - If not required, must do Simplified Source Selection Report (SSSR)
- Documents results of the SSET evaluation, provides comparative analysis of the offeror's proposals and SSAC/SSET source selection decision recommendation
- Includes: Performance confidence assessment, mission capability, cost/price risk (if used), cost/price, and contractual considerations
- Cost team responsible for cost/price section

Price Competition Memo (PCM)

- Responsibility of Contracting Officer
- Documents principal elements of negotiated agreement
- Included in official contract file
- Cost team provides inputs to CO
- Documents
  - Program description, winning offeror, clearance, evaluators, acquisition background, period of performance, etc.
  - Reasonableness, Realism, Most Probable Cost Calculation, Cost/Price Risk Factor Rating (if applicable), Determination of Adequate Price Competition, Balance of Contract Line Items, and Total Evaluated Price
- May be combined with the PAR

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Source Selection Decision Document (SSDD)

- **Provides SSA's Integrated Assessment and Best Value Decision**
- **Must track to Requirements, Evaluation Factors, Decision Briefing and PAR**
- **Compares Proposals by Factors/Subfactors**
- **Must be a stand alone document**
- **Redacted copy will be provided to debriefed offerors**

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Lessons Learned

- **Work resource issues early – necessary, available, qualified, trained people, seating, computers**
- **Develop a cost team schedule**
  - **Include activities, dates, responsible parties**
  - **Coordinate/integrate with overall schedule**
  - **Provides SSET with understanding of necessary tasks; ensures tech personnel are informed of deadlines**
- **Evaluation Notices (ENs)**
  - **Route ENs through appropriate channels for review to avoid duplication**
  - **Have other team members (e.g., technical) review appropriate ENs prior to approval**

Lessons Learned (cont'd)

- **Have analogous system and factor data ready and reviewed prior to the evaluation**
- **Use appropriate Briefing Templates**
- **Regular Team meetings (e.g., weekly)**
- **Review your briefing/documentation requirements early to facilitate final preparation**
- **Continuous coordination among cost team, technical team, & contracting personnel**
- **Pass on lessons learned!**

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Questions?

- **Questions?**
- **Feedback?**
  - **Please complete the feedback sheet before you leave.**
  - **The training modules will be reviewed/updated periodically based on your inputs**